BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Increase of rates and Charges and USF Eligibility by Carbon/ Emery Telecom, Inc.	: : : : :	Docket No. 05-2302-01

DIRECT TESTIMONY

OF

WILLIAM DUNKEL

ON BEHALF OF THE UTAH COMMITTEE OF CONSUMER SERVICES

NOVEMBER, 2005

REDACTED VERSION

Proprietary information has been redacted from this document.

The redacted areas are bracketed by: *   *****

Executive Summary

Direct Testimony of William Dunkel

Docket No. 05-2302-01 (Carbon/Emery)

1. The Company filing includes over *** *** of claimed intrastate annual depreciation expense for accounts that are already fully depreciated. Once an investment is fully depreciated, no further depreciation expense on that fully depreciated investment is appropriate. The Company proposals to include continuing depreciation expense for accounts that are already fully depreciated should be rejected. The four fully depreciated accounts for which the Company is claiming depreciation expense are listed on Schedule WD-1. The results of this recommendation are shown on the CCS Summary Schedule which is RM-1, attached to the testimony of Ms. McCullar.

2. The FCC Rules require that the depreciation expense be placed into the Depreciation Reserve. However the Company filing shows the expected depreciation expense to be $2.6 million for year 2005, but shows the expected addition to the Depreciation Reserve to be less than $0.4 million in 2005. Approximately $2 million is missing from the Depreciation Reserve in the Company filing.

I recommend the filing be corrected so that the additions to the Depreciation Reserve in year 2005 are equal to the depreciation expense in the year 2005. To do otherwise would violate the required treatment of depreciation expense.

The implementation of this recommendation is included on the CCS Summary Schedule, which is RM-1 attached to the testimony of Ms. McCullar.

3. The Corporate Operations expense included in the Company filing contains charges that are unusually high. The annual adjusted Corporate Operations expense that Carbon/Emery is using in its filing is *** *** the actual 2002 and 2003 annual Corporate Operations expenses. The Corporate Operations expense proposed by the Company includes the full amount of the rate case consultant fee. I propose the rate case consultant fee be amortized over 5 years.
The Legal expense included in the Company proposal is *** *** the actual 2003 or 2002 legal expense. The test year External Relations and Accounting expenses proposed by the Company are at least *** *** than they were in 2002 or 2003. I recommend these unusually high expenses in year 2004 be amortized over 5 years. To be conservative, I used the **highest** of the 2003 or 2002

actual expenses as the base figure. I recommend a five-year amortization period for the abnormally high Legal, Accounting and External Relations expenses that exceed that base figure. The results of this recommendation are shown on Schedule WD-3.

4. Regarding the Company proposed expense adjustments:
(a) The Company had proposed an added GPS expense. Carbon/Emery has now withdrawn that proposal in Carbon Emery's response to CCS Data Request 3.4.1.
(b) The Company test year expense included the full cost of blacktopping the business office parking lot and the Yard. It also included the full cost of new gates at the Yard. I propose these costs be amortized over 15 years.
(c) The Company proposed an increase for "fiber maintenance" expense and an expense increase for "other maintenance projects." However, in response to CCS's discovery requests, the Company was not able to provide reasonable support for these alleged increases in expenses. I recommend these two Company proposed adjustments not be accepted.

The impact of all of the above recommendations is included on the CCS Summary Schedule, which is RM-1 attached to the testimony of Ms. McCullar.

INTRODUCTION AND STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is William Dunkel. My business address is 8625 Farmington Cemetery Road, Pleasant Plains, Illinois 62677.

Q. What is your present occupation?

A. I am the principal of William Dunkel and Associates, which was established in 1980. Since that time, I have provided consulting services in telephone regulatory proceedings throughout the country. I have participated in over 140 state regulatory telephone proceedings before over one-half of the state commissions in the United States. I specialize in the following areas: cost analysis; rate design; jurisdictional separations; and depreciation.

Q. Have you prepared an appendix that describes your qualifications?

A. Yes. My qualifications are shown on Appendix A.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Utah Committee of Consumer Services (CCS).

Q. Have you previously participated in telecommunications proceedings in Utah?

A. Yes. Recently, I participated on behalf of the CCS in Docket No. 05-053-01, which was UBTA-UBET's USF Application proceeding. I have participated on behalf of the CCS in many of Qwest's (previously U.S. West Communications or Mountain Bell Telephone Company) proceedings in Utah. I testified on behalf of the CCS in Qwest's petition proceedings for Pricing Flexibility in Utah (Docket No. 03-049-49 (residential services), Docket Nos. 01-2383-01 (residential services) and 02-049-82 (business services)). In addition, I was involved in six different Qwest (or its predecessor) general rate cases, Docket Numbers: 84-049-01; 88-049-07; 90-049-06/90-049-03; 92-049-07; 95-049-05; 97-049-08. I was also involved in the Qwest 800 Services case, Docket No. 90-049-05.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to certain issues in the Carbon/Emery (or the "Company") Application for Increase in Rates and Charges and USF Eligibility and issues in the related Company testimony, exhibits, and data responses. I will primarily address depreciation/amortization issues.

I assigned certain depreciation issues to another consultant, Roxie McCullar. She will address those issues in her testimony. I have specifically reviewed Ms. McCullar's analysis of the depreciation issues she addresses, and I support her recommendations. Ms. McCullar will also address the separation factors and will present the summary Schedule RM-1 that incorporating all of the CCS witnesses' recommendations.

Thomas Regan will address the cost of capital and the rate design issues associated with the case.

CARBON/EMERY IS DEPRECIATING A FULLY DEPRECIATED ACCOUNT-SUBSCRIBER CIRCUIT EQUIPMENT

Q. What is one major problem with the Carbon/Emery filing?

A. A major problem is Carbon/Emery includes continuing depreciation expense for four accounts that are already fully depreciated. It is not acceptable to claim additional depreciation expense on accounts that are already fully depreciated.

First I will address the Subscriber Circuit Equipment account. The Subscriber Circuit Equipment account was fully depreciated by the end of 2004. For this account, Company Exhibit S-6, page 1 shows the Plant in Service at 12/31/ 2004 was $5,407,077, and the Depreciation Reserve at 12/31/ 2004 was the same number: $5,407,077. This account was fully depreciated by the end of 2004.

In addition, the Company filing does not project any "Post 2004" additions to this account.[1] Since this account is fully depreciated, the proper depreciation expense to be included in this case for this account is $0.

Q. What depreciation expense is Carbon/Emery proposing for this account?

[1] Company Exhibit S-6, page 1, column (E).

A. Carbon/Emery's filing proposes *** ***[2] of depreciation expense for this account, in spite of the fact the account is fully depreciated. This is improper for a fully depreciated account.

Q. Where did the Company filing include this * *** expense?**

A. The Company included the *** *** depreciation expense for this account in the $2,674,025 "Depreciation and Amortization" expense shown on line 14, Column (M) of Company Exhibit S-9. The separated intrastate portion of this number was included in Company Exhibit S-1.

Q. Can you show how the Company filing includes * *** of depreciation expense for this fully depreciated account?**

A. Yes. The table below shows a breakdown of the "Depreciation and Amortization" expense the Company included on line 14 of Exhibit S-9 of its filing:

[2] See Schedule WD-1. This figure is before separations (this is the Carbon/Emery "Total Company"). After separations the Company included*** *** intrastate (60.50% intrastate).

Breakdown of Depreciation Expense Included in the Company Filing
(in Exhibit S-9)

Accounts:	Total Company 2004 Income Statement (Col. (D))	Plant Adjustments (Col.(F))	Adjustment For Excess Depreciation (Col. (G))	Proposed Depreciation Rate Increase (Col. (H))	Total Company Revenue Requirement (Col. (M))
Microwave Transmission Eq.	***	$27,496	$0	$0	***
Digital Elec.Switching		$4,952	$0	$0	
Subscriber Circuit Eq.		$2,250	$0	$33,745	
Aerial Cable		-$3,990	$0	$0	
All Other Accounts	***	$117,340	$63,401	$124,697	***[3]
Total Depreciation and Amortization Expense In Company Filing (Exh.S-9, L.14)	$2,304,134	$148,048	$63,401	$158,442	$2,674,025

This table, including sources, is also attached as Schedule WD-1.

As shown above, in the Subscriber Circuit Equipment account the major problem with the Company filed depreciation expense for this fully depreciated account is the *** *** expense they included the "2004 income statement" column. The Company did book depreciation expense to this account in 2004. However, by the end of 2004 this account was fully depreciated. By the end of 2004, the Depreciation Reserve equaled the Plant in Service for this account, as shown on

[3] The figures in columns F, G, and H are public numbers. Columns D and M contain proprietary figures. These are unseparated figures. In the Company filing, intrastate is 62.77% of the "Plant Adjustment" column, and 60.50 % of the other columns.

Company Exhibit S-6, columns C and G. There should be no further depreciation expense for this fully depreciated investment.

While there was depreciation expense in this account in 2004, one of the "known and measurable" adjustments to the 2004 data should reflect the fact that this investment is now fully depreciated. As stated in the Company filing: "The test period proposed by Carbon/Emery in the Application is 2004 with Known and Measurable Adjustments."[4] The Company used Known and Measurable Adjustments through the end of 2005. For example, the Company stated: "This change also allows the application to reflect the planned plant in service and reserve balances as of January 1, 2006."[5] The Subscriber Circuit Equipment account was fully depreciated by the end of 2004. This is well within the period in which Known and Measurable Adjustments are to be included in this case.

Q. On Schedule WD-1 you have shown that the filing Company includes * *** for this account in the "2004 income statement" column. Can you demonstrate that *** *** for the Subscriber Circuit Equipment account was included in the $2,304,134 Total 2004 depreciation expense used on Exhibit S-9 of the Company filing?**

A. Yes. Attached as WD-2 is the data from the Company response to DPU Request 1.9d. This is the source data for the $2,304,134 total 2004 depreciation expense used in column D of Company Exhibit S-9. To help track the key numbers, I have

[4] Page 1, Paragraph 1, Carbon/Emery "Supplement to Application for Rate Increase and USF Eligibility" dated September 1, 2005.
[5] Page 2, Paragraph 1iii, Carbon/Emery "Supplement to Application for Rate Increase and USF Eligibility" dated September 1, 2005.

circled the key numbers and added notations in italics. On page 2 of this Schedule you can see the depreciation expense for the Subscriber Circuit Equipment account was *** *** in 2004. Tracking this number down the Depreciation Expense column, you can see that this number is included in the $2,304,134 total 2004 depreciation expense used on line 14 of Company Exhibit S-9. The separated version of this number ($2,304,134*0.6050=$1,394,001) is used on line 14 of Company Exhibit S-1.

No Company adjustment removes this *** *** (or the separated version of it) from the final depreciation expense which the Company proposes in this filing.[6]

The depreciation expense that the Company is using in this filing improperly includes *** *** of depreciation expense for this fully depreciated account.

Q. What is the appropriated depreciation treatment for a fully depreciated account?

A. There should be no depreciation expense for a fully depreciated account. This recommendation results in removing *** *** from the Company claimed depreciation expense for the Subscriber Circuit Equipment account.

[6] Column M of Exhibit S-9 and the separated version on Column M of Exhibit S-1.

One common way to accomplish the proper treatment of a fully depreciated account is to set the depreciation rate to zero for a fully depreciated account. For example, in a Qwest case now before the Arizona Commission, I testified on depreciation on behalf of the Staff of the Arizona Corporation Commission. In that case Qwest proposed a zero depreciation rate for the accounts that were fully depreciated.[7]

Another accepted treatment of a fully depreciated account is to establish a depreciation rate that will apply only to **new** additions, but would not apply to the existing, fully depreciated balance.[8] For example, I am currently addressing depreciation in an OTZ Telephone Cooperative case in Alaska in which OTZ proposed this treatment for the fully depreciated accounts.[9]

For this case, I recommend the second treatment discussed above. The fully depreciated investments would not have any future deprecation expense, which is the proper treatment for the fully depreciated investments. However if in the future the Company made new investments in this account, those new investments would start depreciating, which is the proper treatment for any new investments.

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[7] Direct Testimony Exhibits of Kerry Dennis Wu on Behalf of Qwest Corporation, May 20, 2004. Docket No. T-01051B-03-0454, Docket No. T-00000D-00-0672.

[8] The existing fully depreciated investment is effectively treated as a subaccount, with a depreciation rate of zero for that subaccount.

[9] Page 4 of "Introduction" to the "OTZ Telephone Cooperative Depreciation Study for the Year Ended December 31, 2002." Docket No. U-03-085.

For the fully depreciated accounts[10], the depreciation rates recommended in the testimony of Ms. McCullar are the rates that would apply to new additions.

Q. Referring to WD-1 , you have discussed the " 2004 income statement" amount for Subscriber Circuit Equipment that the Company included in its filing. What about the other claimed depreciation expenses of $2,250 and $33,745 that the Company included for this account?

A. These are also incorrect. The investment in this account is fully depreciated, and the Company filing does not include any "Post 2004" additions to this account. No additional depreciation expense is appropriate on a fully depreciated balance.

These other depreciation expense claims in this account result primarily from other minor problems in the Company filing, such as formula errors and/or double counting the 2004 additions, as is discussed in the testimony of Ms. McCullar.[11]

OTHER FULLY DEPRECIATED INVESTMENTS

Q. You have demonstrated that the Company filing claims depreciation expense for the fully depreciated Subscriber Circuit Equipment account. Does the

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[10] The fully depreciated accounts are Subscriber Circuit Equipment, Microwave Transmission Eq.(Radio Systems), Aerial Cable, and Digital Switching Eq.

[11] On Exhibit S-6, Page 1, Column C, the Company lists the Plant Balances as of the end of 2004. Since these are end-of-year 2004 balances, they already include all of the 2004 additions. However in column D, the Company adds some 2004 additions to this end-of–year 2004 figure. This is a double counting, as discussed in the testimony of Ms. McCullar. Also the Company filing contains some formula errors, as discussed in the testimony of Ms. McCullar.

Company filing claim depreciation expense for any other fully depreciated accounts?

A. Yes. In addition to the Subscriber Circuit Equipment account, the Company filing also improperly claims depreciation expense on the Aerial Cable, Microwave Transmission (Radio Systems), and Digital Electronic Switching fully depreciated accounts, as I will now discuss.

Q. Please discuss the Aerial Cable account.

A. Looking at Schedule WD-2, you can see that there was*** *** of depreciation expense in the *** *** of 2004 in the Aerial Cable account. After that the depreciation expense each month is zero, because the account was then fully depreciated. The total for the year is *** ***, as can be seen on page 2 of that Schedule. Tracking this number down the Depreciation Expense column, you can see that this amount is included in the $2,304,134 total 2004 depreciation expense used on line 14 of Company Exhibit S-9. The separated version of this number ($2,304,134*0.6050=$1,394,001) is used on line 14 of Company Exhibit S-1. No Company adjustment removes this from their claimed depreciation expense. The Company filing includes this *** *** of depreciation expense for this account, in spite of the fact it is fully depreciated.

Schedule WD-2 also shows that by *** *** 2004 this account was fully depreciated, and there is no depreciation expense booked after that. This is a fully depreciated account. Columns C and G of Company Exhibit S-6 confirm this account was fully depreciated at the end of 2004.[12] Although the Company has stopped booking depreciation expense in this account, it is still claiming depreciation expense for this account in its filing.

As previously discussed, the test period proposed by Carbon/Emery is 2004 with Known and Measurable Adjustments through the end of 2005. The Aerial Cable account became fully depreciated *** *** This is well within the period in which Known and Measurable Adjustments are to be included in this case.

It is improper to claim additional depreciation expense on fully depreciated investments. I recommend that the Company proposal to include *** *** of depreciation expense for the fully depreciated 2004 investments in the Aerial Cable account be rejected.[13]

Q. Please discuss the Microwave Transmission (Radio Systems) account.

A. Looking at Schedule WD-2, you can see that there was depreciation expense in the *** *** of 2004 in the Microwave Transmission account. However by *** *** 2004 this account was fully depreciated, and there is no depreciation expense booked after that. However, the Company filing includes *** *** of depreciation expense for the fully depreciated 2004 investments, as can be seen by tracking this figure down the depreciation expense column on page 2 of Schedule WD-2.

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[12] The Depreciation Reserve equals the Plant in Service.

[13] The Company filing does not include any “Post 2004” additions in this account, as shown on column E of Company Exhibit S-6.

As previously discussed the test period proposed by Carbon/Emery is 2004 with Known and Measurable Adjustments through the end of 2005. The Microwave Transmission account became fully depreciated *** *** This is well within the period in which Known and Measurable Adjustments are to be included in this case.

It is improper to claim additional depreciation expense on fully depreciated investments. I recommend that the Company proposal to include *** *** of depreciation expense for the fully depreciated 2004 investments in the Microwave Transmission account be rejected.

Q. Exhibit S-5.2 of the Company filing projects that $219,965 of new additions will be added to this Microwave Transmission account in 2005 or early 2006 ("Post 2004" additions). Do you object to a depreciation expense for the "Post 2004" additions?

A. No, assuming the Company actually makes these investments. The "Post 2004" additions would not be fully depreciated, and therefore should be depreciated. At the Company proposed 12.50% depreciation rate, that would be an annual depreciation expense of $27,496 (intrastate is 60.50% of this), as shown on Company Exhibit S-5.2.

The above calculation is based on the "Post 2004" addition amount contained in the Company filing. I reserve the right to adjust this calculation in the event that the

DPU, or other party, presents a reasonable adjustment to the “Post 2004” addition amount.

Q. Please discuss the Digital Electronic Switching account.

A. As shown in Columns C and G of Company Exhibit S-6, the Digital Electronic Switching account was almost fully depreciated at the end of 2004 (the investment was $4,889,315 minus the reserve of $4,492,927). This investment became fully depreciated in the fall of 2005.[14] The Company filing acknowledges the Digital Electronic Switching account is “fully depreciated”[15]

As previously discussed, the test period proposed by Carbon/Emery is 2004 with Known and Measurable Adjustments through the end of 2005. The existing investment in Digital Electronic Switching is a fully depreciated investment within the period in which Known and Measurable Adjustments are to be included in this case.

It is improper to claim additional depreciation expense on fully depreciated investments. However, the Company filing includes *** *** of depreciation expense for the investment that was in this account in 2004, as can be seen on page 2 of Schedule WD-2. I recommend that the Company proposal to include *** *** of annual depreciation expense for

[14] This is at the 12.50% depreciation rate currently used. The Company has proposed to use an 8.33% depreciation rate instead of the 12.50% currently used (Company Exhibit S-7). This investment would be fully depreciated in late 2005, even at the 8.33% rate.
[15] Notes to Exhibit S-1, paragraph (c). This is part of the Carbon/Emery September 1, 2005 filing.

the fully depreciated investments in the Digital Electronic Switching account be rejected.

Q. Exhibit S-5.2 of the Company filing projects that $80,000 of new additions will be added to this account in 2005 or early 2006 ("Post 2004" additions). Do you object to a depreciation expense for the "Post 2004" additions?

A. No, assuming the Company actually makes these investments. The "Post 2004" additions would not be fully depreciated, and therefore should be depreciated. On Company Exhibit S-5.2 the Company applies an 8.33% depreciation rate to this $80,000 of "Post 2004" investment and proposes a resulting annual depreciation expense of $6,664 (intrastate is 60.50% of this). Ms. McCullar has accepted the 8.33% depreciation rate for this account, and assuming the Company actually makes the expected "Post 2004" investments, including this depreciation expense in the revenue requirement is acceptable.

The above calculation is based on the "Post 2004" addition amount contained in the Company filing. I reserve the right to adjust this calculation in the event that the DPU, or other party, presents a reasonable adjustment to the "Post 2004" additions amount.

Q. Can you summarize the above issue?

A. Yes. In several accounts the Company filing includes additional depreciation expense for investments that are already fully depreciated. This is improper. There should be no additional depreciation expense for fully depreciated investments.

DEPRECIATION RESERVE-THE MISSING $2 MILLION

Q. On page 8, line 15 of his testimony, Mr. Meredith says

"This change allows the application to reflect the planned plant in service and reserve balances as of January 1, 2006."

Does the Company application reasonably reflect the expected Reserve balance as of January 1, 2006?

A. No. The Company application greatly understates the expected Reserve balance as of January 1, 2006,[16] as I will demonstrate next.

To demonstrate a correct calculation, shown below is the actual change in Net Telephone Plant from 2003 to 2004 using actual data from Schedule S-8 of the Company filing:

Carbon/Emery
(Total Company)

	2003 ($Millions)	2004 ($Millions)	Difference ($Millions)
Plant in Service	$34.8	$35.1	+0.3
Depreciation Reserve	23.6	25.7	+2.1
Difference: Plant Less Reserve	11.2	9.4	-1.8
Other	1.1	1.0	-0.1
Net Plant	$12.3	$10.4	$-1.9

[16] This is the expected Reserve balance at the Company proposed depreciation expense. In this discussion I refer to the depreciation expense as proposed by the Company. I show the Company proposed Depreciation Reserve increase is inconsistent with the Company proposed depreciation expense. This does not imply that I support the Company proposed depreciation expense.

As the above shows, the Carbon/Emery Depreciation Reserve actually increased about $2 million in one year.

Q. What money is added to the Depreciation Reserve?

A. The depreciation expense is placed into the Depreciation Reserve. The FCC Rules state:

> 32.2000(g)(2)(iii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and the corresponding credits shall be made to the appropriate depreciation reserve accounts.[17]

The Company filing projects $2,674,025 of depreciation expense in 2005.[18] This would mean that $2,674,025 should be added to the Depreciation Reserve in year 2005.

Q. What is the major problem with the Depreciation Reserve in the Company filing?

A. Exhibit S-9 of the Company filing projects over $2.6 million of depreciation expense in 2005[19], which means that over $2.6 million would be added to the Depreciation Reserve in 2005. However, the Company filing shows less than $0.4 million added to the Depreciation Reserve in 2005.[20]

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[17] 32.2000(g)(2)(iii) of 47 CFR.

[18] Company Exhibit S-9, line 14, column M.***

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[19] Company Exhibit S-1, line 14.

[20] Company Exhibit S-9, Line 38: $148,048+$63,401+$158,442=$369,891. In addition, there is a typographical error on Company Exhibit S-9. That Exhibit shows the Depreciation Reserve figure on row 38, column (F) as positive. It should be negative. On the intrastate version of this Exhibit (Exhibit S-1), the

Thus, $2.2 million that should be in the Depreciation Reserve at the end of 2005 is missing from the Company filing.

Q. The above figures are before separations (they are "Total Company" Carbon/Emery figures). What are the intrastate separated figures for this same Depreciation Reserve issue?

A. Exhibit S-1 of the Company filing projects $1,617,785 of separated intrastate depreciation expense in 2005[21], which means that over $1.6 million should be added to the intrastate Depreciation Reserve in 2005. However the Company filing shows less than $0.3 million added to the intrastate Depreciation Reserve in 2005.[22] Therefore, over $1.3 million that should be in the intrastate Depreciation Reserve at the end of 2005 is missing from the Company filing.

Q. What do you recommend on this Depreciation Reserve issue?

A. The filing has to be corrected so that the additions to the Depreciation Reserve in year 2005 are equal to the depreciation expense in the year 2005. To do otherwise would violate the required treatment of depreciation expense.

The above figures are based on the depreciation expense as proposed by the Company. After corrections are made, the depreciation expense proposed by the

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Company did properly show the intrastate portion of this number as negative. The reason these Depreciation Reserve numbers are properly negative on these Exhibits is because the Depreciation Reserve is a deduction when calculating net rate base.

[21] Company Exhibit S-1, line 14, Column M.
[22] Company Exhibit S-1, Line 38: $92,928+$38,358+$99,454=$230,740.

CCS is lower than the depreciation expense proposed by Carbon/Emery. The final calculation of the year 2005 additions to the Depreciation Reserve can only be made after the appropriate depreciation expense is determined. Once the depreciation expense is determined, the additions to the Depreciation Reserve in year 2005 should be set equal to the depreciation expense for that year 2005.[23] We have done this on Schedule RM-1, attached to the testimony of Ms. McCullar.

CORPORATE OPERATIONS EXPENSE

Q. Is the annual Corporate Operations expense the Company is using in its filing unusually high as compared to actual Carbon/Emery Corporate Operations expenses for other years?

A. Yes. The annual Corporate Operations expense claimed by the Company in this case is unusually high. Shown below is the actual Corporate Operations expense of Carbon/Emery for the years 2002 and 2003, compared to the adjusted 2004 annual Corporate Operations expense the Company is claiming in this filing:

[23] The Company filing does not project any retirements in 2005, so the impact of retirements in 2005 is not an issue. However even if retirements do occur in 2005, a retirement does not change the net rate base. When a retirement occurs, the retired plant investment is removed from the Plant in Service figure, and the same amount is removed from the Depreciation Reserve. Since the Plant in Service is an addition to Net Rate base, and the Depreciation Reserve is a deduction from Net Rate Base, removing the same amount from both has no effect on the Net plant.(There can be a change (generally small) in net rate base at retirement if there is a net salvage of the retirement, but the Carbon/Emery depreciation calculations show no net salvage).

***

Carbon/Emery

	2002 Actual	2003 Actual	2004, Including Company Adjustments
Corporate Operation Expense			

***

As shown above, the annual adjusted Corporate Operations expense[24] that Carbon/Emery is using in its filing is *** *** the actual 2002 and 2003 annual Corporate Operations expenses.

Q. What is one reason for the high annual Corporate Operations expense used in the Company filing?

[24] Source for the figures in the above tables is attachment "DR1.9c Expenses 2002-2004", provided by Carbon/Emery in Response to DPU Request 1.9c. These figures are before separations (these are "Total Company" Carbon/Emery figures).

A. The Company included the full amount of the rate case consultant fee as a cost to be recovered in just one year. The consultant rate case cost is $160,000 in the Company filing, $100,528 of which was separated to the intrastate jurisdiction.[25] The Company filing does not amortize this cost over several years. Instead it seeks to recover the full rate case consultant cost in one year.[26]

Q. How often does Carbon/Emery have a major rate case?

A. A major rate case does not occur every year. Carbon/Emery started on April 5, 2001, and the current case is its first general rate case.[27]

To get a longer view of major cases, the case that set the current Emery Telcom (Carbon/Emery's parent company) depreciation rates was a case in *** ***[28]

Q. What is your recommendation on the consultant rate case fee issue?

A. The consultant rate case fee should be amortized over several years. I recommend a five-year amortization period for this consultant rate case expense. If there are no other adjustments to the consultant rate case expense[29], this amortization results in an annual consultant rate case expense of $ 32,000, as shown on Schedule WD-3.

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[25] "Notes to Exhibit S-1", page 2, paragraph (e) in the Carbon/Emery September 1, 2005 filing. This source also shows the Company separated 62.83% of this cost to the intrastate jurisdiction.
[26] Carbon/Emery response to Request CCS 4.1.1.
[27] Carbon/Emery response to Requests CCS 1.6 and 4.1.2.
[28] *** *** From Company response to Request CCS 3.11.1.
[29] At the time this testimony is being written, I have not seen the DPU testimony. I reserve the right to support appropriate adjustments proposed by the DPU or other parties.

The Company separated 62.83% of the consultant rate case expense to the intrastate jurisdiction.[30] However, since the consultant rate case fee only pertains to an intrastate case, no portion of these costs should be separated to the interstate jurisdiction, and 100% should be placed in the intrastate jurisdiction (“direct assigned”). This is discussed in more detail in the testimony of Ms. McCullar.

Q. What is another item that contributes to the higher Corporate Operations expense that is in the Company filing?

A. The Legal expense was unusually high in 2004. Shown below is the Legal expense of Carbon/Emery for the years 2002-2004:

***

	Carbon/Emery		
	2002	2003	2004
Legal Expense (Account 6725)			

[30] “Notes to Exhibit S-1”, page 2, paragraph (e) in the Carbon/Emery September 1, 2005 filing.

***[31]

It is clear from the above information that 2004 was a year in which the Carbon/Emery Legal expense was unusually high. In 2004 the Legal expense was over *** *** as much as it was in 2002, and over *** *** what it was in 2003.[32]

Q. What do you recommend?

A. I recommend the unusually high Legal expense in year 2004 be amortized over several years. In fairness to the customers state-wide that support the state USF, the payments that Carbon/Emery receives each year from the state USF should not be based on a year of abnormally high Legal expense. To be conservative, I used the **highest** of the 2003 or 2002 actual Legal expenses as the base figure.[33] I

[31] Source for these figures is attachment "DR1.9c Expenses 2002-2004", provided by Carbon/Emery in Response to DPU Request 1.9. These figures are before separations (these are "Total Company" Carbon/Emery figures).
[32] Carbon/Emery was started with the acquired exchanges effective April 5, 2001 (Company response to CCS Request 1.6).
[33]As shown on Schedule WD-3, since the Legal expense was higher in 2002 than in 2003, I used the 2002 Legal expense of ***

***

recommend a five-year amortization period for the abnormally high Legal expenses that exceed that base. If there are no other adjustments to the Legal expense[34], this amortization results in an annual Legal expense of *** ***as shown on Schedule WD-3.

Even after this correction to the Carbon/Emery proposal, this corrected Legal expense of *** *** is much higher than the actual 2002 or 2003 Legal expense, as can be seen on the above table.[35]

Q. What other Corporate Operations expenses are unusually high in the test year expense?

A. The "External Relations" and Accounting[36] expenses are high in 2004. External Relations includes maintaining relations with government, regulators, other companies, and the general public.[37] Shown below are the External Relations and Accounting[38] expenses of Carbon/Emery for the years 2002-2004:

***

[34] At the time this testimony is being written, I have not seen the DPU testimony. I reserve the right to support appropriate adjustments proposed by the DPU or other parties.
[35] The Carbon/Emery Legal expense was *** *** in 2003 (Total Company)(Response to DPU 1.9c).
[36] Account 6721, which includes both "Accounting and Finance" and "Accounting-Cost'.
[37] Part 32.6722 of the FCC Rules prior to 11/05/01. Effective that date, account 6722 was merged into account 6720 in the FCC rules. However Carbon/Emery still maintains 6722 as a separate account.
[38] Account 6721, which includes both "Accounting and Finance" and "Accounting-Cost'.

		Carbon/Emery		
		2002	2003	2004
6721	Accounting and Finance Includes "cost" accounting			
6722	External Relations			

***[39]

As shown above, the test year External Relations and Accounting expenses in 2004 are at least *** *** than they were in 2002 or 2003. I recommend these unusually high expenses in year 2004 be amortized over several years. In fairness to the customers state-wide that support the state USF, the payment that Carbon/Emery receives each year from the state USF should not be based on a year of abnormally high Accounting and External Relations expenses. To be conservative, I used the **highest** of the 2003 or 2002 actual expenses as the base figure. I recommend a five year amortization period for the abnormally high Accounting and External Relations expenses that exceed that base.

If there are no other adjustments to these expenses[40], this amortization results in an annual Accounting expense of *** *** as shown on Schedule WD-3. Even after this correction to the Carbon/Emery proposal, this

[39] Source for these figures is attachment "DR1.9c Expenses 2002-2004", provided by Carbon/Emery in Response to DPU Request 1.9. These figures are before separations (these are "Total Company" Carbon/Emery figures).
[40] At the time this testimony is being written, I have not seen the DPU testimony. I reserve the right to support appropriate adjustments proposed by the DPU or other parties.

Accounting expense is still a significant increase over the 2003 or 2002 actual Accounting expense levels.[41]

If there are no other adjustments to these expenses[42], this amortization results in an annual External Relations expense of *** *** as shown on Schedule WD-3. Even after this correction to the Carbon/Emery proposal, this External Relations expense is still a significant increase over the 2003 or 2002 actual External Relations expense.[43]

Q. How does the adjusted 2004 Corporate Operations expense you recommend compare to the actual 2003 Corporate Operations expenses?

A. Even after the adjustments I recommend, the adjusted 2004 intrastate Corporate Operations expense of *** *** still exceeds the actual 2003 Carbon/Emery intrastate Corporate Operations expense by ***. This is an increase of *** ***, as shown on Schedule WD-4.[44]

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[41] The Carbon/Emery Accounting expense was *** *** in 2003, before separations.(Company response to Request DPU1.9c).

[42] At the time this testimony is being written, I have not seen the DPU testimony. I reserve the right to support appropriate adjustments proposed by the DPU or other parties.

[43] The Carbon/Emery External Relations expense was *** *** in 2003, before separations.(Company response to Request DPU1.9c).

[44] The actual separated intrastate Carbon/Emery Corporate Operation expense in 2003 was *** ** as shown on page 20 of the Carbon/Emery Annual Report to the Commission.

PLANT ADDITIONS

Q. On its Exhibit S-5.2, Carbon/Emery presents several investment projects which it says are "Projects To Be started in 2005 & Completed in 2005 or Early 2006." Do you or any witness from your firm address these investments?

A. No. From its discovery, it is clear that the DPU is evaluating these post-2004 investments. We have not duplicated these DPU efforts. For now our Summary Schedule includes these "Post 2004" investment figures at the same level as in the Company filing. After the DPU files testimony, I reserve the right to review, and as appropriate, support recommendations contained in the DPU testimony (or testimony of any other party).

CARBON/EMERY'S PROPOSED EXPENSE ADJUSTMENTS

GPS CHARGES

Q. Plant Expense Adjustment #1 on Exhibit S-5.3 of the Company's filing states "GPS Charges for Vehicles at $8,000 per month." Has the Company now withdrawn this plant expense adjustment?

A. Yes. In response to CCS Data Request 3.4.1, Carbon Emery indicated that it has withdrawn this plant expense adjustment.

NEW BLACKTOP AND GATES

Q. Plant Expense Adjustment #2 on Exhibit S-5.3 of the Company's filing states "Black Top Price Business Office". Plant Expense Adjustment #3 states "Black Top Price Yard." Plant Expense Adjustment #4 on Exhibit S-5.3 of the Company's filing indicates the gate will be replaced along with paving the Price Yard. ("New Gates for Price yard"). Is there a problem with these proposed Plant Expense Adjustments?

A. Yes. As Carbon/Emery indicated in its responses to CCS Data Requests 3.5.1, 3.6.1, and 3.7.1, Carbon Emery included the **entire amount** of the costs of blacktopping the Price Business Office and blacktopping and gates at the Price Yard in these Plant Expense Adjustments. Carbon/Emery has included the entire amount of these costs in its test year expenses. This is not reasonable. Blacktop has a life that is much longer than one year. In fact, Carbon Emery indicates that it has never previously blacktopped either of these locations.[45] Therefore, it is not reasonable to include the entire costs of these projects as a normal annual expense of the Company.

Q. What is a reasonable estimate for the useful life of a new blacktop surface?

A. Publicly available information indicates that 15 to 20 years is a reasonable estimated useful life of a new blacktop surface.[46] It would be much more

[45] Carbon Emery's response to CCS Data Requests 3.5.2 and 3.6.2.
[46] For example, C&R Asphalt Company (www.asphaltanimals.com/FAQs.htm, visited on October 14, 2005) indicates that 20 years is a good average for the useful life of an asphalt parking lot; Dentco Exterior Services Management Company (www.dentco.com/apr2003.asp, visited on October 14, 2005) indicates that the average life span of asphalt is about 15 years.

reasonable to amortize the costs of blacktopping these areas over the estimated useful life of the blacktop surfaces.

Q. What estimated useful life do you recommend for purposes of amortizing the costs of Carbon/Emery's proposed blacktop/gate projects?

A. To be conservative, I recommend that these costs be amortized over an estimated useful life of 15 years. This results in an annual intrastate expense that is $71,702 less than the blacktop/gate expense in the Company filing.[47]

FIBER MAINTENANCE PROJECTS

Q. Item #6 on Exhibit S-5.3 is a Plant Expense Adjustment for "Fiber Maintenance Projects", in which the Company proposes an expense adjustment of $125,035 be added to its test year intrastate costs. Are there any problems with the Company's proposed expense adjustment for these "Fiber Maintenance Projects"?

A. Yes. In discovery when we asked the Company to provide support for the claim of expanded "fiber maintenance" expenses, it could not provide reasonable support for it.

Specifically, Carbon/Emery was asked in discovery to provide a complete detailed description of the "Fiber Maintenance Projects" referred to in the Company's

[47] This is included in Schedule RM-1.4 attached to Ms. McCullar's testimony.

expense adjustment. My request, and Carbon/Emery's response are provided below:

CCS Data Request 3.8.1

Request:

With reference to Exhibit S-5.3, line 6 description states "Fiber Maintenance Projects". Please provide a complete detailed description of the fiber maintenance projects planned.

Response:

The following are lists of jobs and their description:

13-018 Place cable Railroad Ave. (includes cut-over)
13-056 Place cable 600 S. Nick Lane (new building)
03-002 Place cable and drop 257 W. Whitmore (replaces aerial)
08-001 Place x-box Spring Canyon Rd. (heats up 300 pair)
08-002 Replace bad section 102 W.-106 W.300 N. (50pair)
08-003 Relocate Pedestal 58 Racey Street
08-004 Cut 400 pair into pedestal 4068 N. HWY. 6
08-015 Place aerial cable Canyon Street
08-015 Cut over Canyon Street aerial cable
13-001 Place 100-24 490 East ridge Dr. (replaces defective)
13-005 Replace drop 501 N. Carbonville Rd.
13-008 Replace pedestals 457 S. 300 W.
13-015 Place Cable and Drop 1655 S. 2350 E.
13-072 Place x-box 514 Cottonwood Dr.
13-072 Cut in x-box 514 Cottonwood Dr.
13-019 Place 900-24 100 E. 400 S. (includes cut, replaces def.)
13-070 Place cable and drops Robertson Lane
13-061 Replace drop 1440 E. 8900 S.
13-098 3000 South (fiber cabinet)

The list that was allegedly the expanded "fiber maintenance" projects was really just list of various projects, most of which appear to have little or nothing to do with "fiber maintenance". For example, reference is made to "900-24" cable. In standard telecommunications terminology that is a 900 pair, 24 gauge **copper** cable ("24 gauge" is a term that applies to copper cable). Reference to "100-24", "300 pair", "400 pair", and "50 pair" are all terms that generally indicate **copper** cables.

The list contains numerous references to the installation of cables, drops, pedestals and x-boxes. Installing cables, drops, pedestals and cross-connect (x-box) boxes are normal activities (frequently involving copper cables) that do not demonstrate an expanded "fiber maintenance" expense.

Q. Are there other problems with Carbon/Emery's proposed "fiber maintenance" Plant Expense Adjustment?

A. Yes. Carbon/Emery has not provided any evidence that these activities are over and above the normal activities. During the normal course of business, Carbon/Emery would be required to place cables, place drops, and place cross-connect boxes. Carbon/Emery has provided no evidence that these activities "to be started and completed in 2005" are significantly higher than its similar test year activities. Therefore, Carbon/Emery has provided no valid justification for adding these items to its test year data.

Q. Is there any evidence that Carbon/Emery's fiber maintenance expenses have been increasing?

A. *** *** The fiber maintenance expenses are recorded in expense account 6423, Buried Cable Expense, and it is possible some could be in account 6421, Aerial Cable Expense. As shown below, Carbon/Emery's expenses in these accounts *** ***

***

Carbon/Emery Cable & Wire Facilities Expenses

	2002	2003	2004
6421 Aerial Cable Expense			
6423 Buried Cable Expense			
Total Cable & Wire Facilities Expense[48]			

***

Q. What is your recommendation on the claimed additional fiber maintenance expense?

A. The company has not provided evidence reasonably supporting an increase in fiber maintenance expense, and therefore this Company proposed adjustment of $125,035 intrastate should not be made.[49]

OTHER MAINTENANCE PROJECTS

Q. Item #7 on Exhibit S-5.3 is a Plant Expense Adjustment for "Other Maintenance Projects", in which the Company proposes an expense adjustment of $22,065 be added to its test year intrastate costs. Are there any problems with the Company's proposed expense adjustment for these "Other Maintenance Projects"?

A. Yes. In discovery, I asked Carbon/Emery to provide a detailed description of these other maintenance projects. However, in response to that discovery, Carbon/Emery

[48] Carbon/Emery's response to DPU Data Request 1.9(c).
[49] This is included in Schedule RM-1.4 attached to Ms. McCullar's testimony.

did not provide any description of these projects. My data request, and Carbon/Emery's response is provided below:

CCS Data Request 3.9.1

Please provide a complete detailed description of the other maintenance projects planned.

Carbon/Emery's Response:

Given the status of the existing plant in service, Carbon/Emery expects to have an additional $30,000 in miscellaneous maintenance projects.

Q. What do you recommend with respect to Carbon/Emery's proposed "Other Maintenance Projects"?

A. Carbon/Emery has not provided any evidence that these projects are over and above Carbon/Emery's normal expenses. I therefore recommend this Company proposed adjustment of $22,065 intrastate should not be made.[50]

CONCLUSION

Q. Please summarize your recommendations.

A. Yes. For the reasons set forth in this testimony my recommendations are:

1. The Company filing includes over *** *** of claimed intrastate annual depreciation expense for accounts that are already fully depreciated. Once an investment is fully depreciated, no further depreciation expense on that fully depreciated investment is appropriate. The Company proposals to include continuing depreciation expense for accounts that are already fully depreciated

[50] This is included in Schedule RM-1.4 attached to Ms. McCullar's testimony.

should be rejected. The four fully depreciated accounts for which the Company is claiming depreciation expense are listed on Schedule WD-1. The specific figures and results of this recommendation are shown on the CCS Summary Schedule that is RM-1, attached to the testimony of Ms. McCullar.

2. The FCC Rules require that the depreciation expense be placed into the Depreciation Reserve. However the Company filing shows the expected depreciation expense to be $2.6 million for 2005, but the expected addition to the Depreciation Reserve in 2005 is less than $0.4 million. Approximately $2 million is missing from the Depreciation Reserve in the Company filing.

I recommend the filing be corrected so that the additions to the Depreciation Reserve in year 2005 are equal to the depreciation expense in the year 2005. To do otherwise would violate the required treatment of depreciation expense.

The implementation of this recommendation is included on the CCS Summary Schedule, which is RM-1 attached to the testimony of Ms. McCullar.

3. The Corporate Operations expense included in the Company filing contains charges that are unusually high. The annual adjusted Corporate Operations expense that Carbon/Emery is using in its filing is *** *** the actual 2002 and 2003 annual Corporate Operations expenses. The Corporate Operations expense proposed by the Company includes the full amount of the rate case consultant fee. I propose the rate case consultant fee be amortized over 5 years.

The Legal expense included in the Company proposal is *** *** the actual 2003 or 2002 legal expense. The test year External Relations and Accounting expenses proposed by the Company are at least *** *** than they were in 2002 or 2003. I recommend these unusually high expenses in year 2004 be amortized over 5 years. To be conservative, I used the **highest** of the 2003 or 2002 actual expenses as the base figure. I recommend a five-year amortization period for the abnormally high Legal, Accounting and External Relations expenses that exceed that base. The results of this recommendation are shown on Schedule WD-3.

4. I make recommendations pertaining to some of the expense adjustments proposed by the Company as follows:

(a) The Company had proposed an added GPS expense. Carbon/Emery has now withdrawn that proposal in its response to CCS Data Request 3.4.1.

(b) The Company test year expense included the full cost of blacktopping the business office parking lot and the Yard. It also included the full cost of new gates at the Yard. I propose these costs be amortized over 15 years.

(c) The Company proposed an increase for "fiber maintenance" expense and an expense increase for "other maintenance projects." However, in response to CCS's discovery requests, the Company was not able to provide reasonable support for these alleged increases in expenses. I recommend these two Company proposed adjustments not be accepted.

The impact of the above recommendations is included on the CCS Summary Schedule, which is RM-1 attached to the testimony of Ms. McCullar.

Q. Does this conclude your testimony?

A. Yes. However, I reserve the right to support appropriate recommended adjustments proposed by the DPU (or other parties, if any) in its direct testimony.